

**HOSPITAL SERVICE DISTRICT NO. 1 OF  
EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

Zachary, Louisiana

Audited Financial Statements

June 30, 2012 and 2011



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## Independent Auditor's Report

To the Board of Commissioners  
Hospital Service District No. 1 of  
East Baton Rouge Parish, Louisiana,  
d/b/a Lane Regional Medical Center  
Zachary, Louisiana

We have audited the accompanying consolidated balance sheets of the Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of June 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These basic consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center, as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Hospital has omitted Management's Discussion and Analysis that accounting principals generally accepted in the United States of America required to be presented to supplement the basic consolidated financial statements. Such missing information, although not part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

A handwritten signature in cursive script, reading "LaPorte".

A Professional Accounting Corporation

October 1, 2012

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Balance Sheets  
June 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 14,338,994	\$ 13,454,881
Short-Term Investments	17,036,449	16,830,401
Investments Held by Trustee for Debt Service	214,009	3,334,160
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of \$7,107,667 in 2012, and \$6,453,077 in 2011	8,638,913	8,885,115
Inventory	583,552	806,795
Other Current Assets	2,236,717	1,955,443
<b>Total Current Assets</b>	<b>43,048,634</b>	<b>45,266,795</b>
Capital Assets, Net	48,421,570	49,762,263
Deferred Outflow - Derivative Instrument	547,590	186,504
Other Assets	1,832,273	1,279,557
<b>Total Assets</b>	<b>\$ 93,850,067</b>	<b>\$ 96,495,119</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current Maturities of Long-Term Debt	\$ 855,636	\$ 2,831,111
Current Maturities of Capital Lease Obligations	2,109,825	2,703,570
Accounts Payable	2,676,253	1,369,139
Accrued Salaries and Wages	1,148,307	1,221,420
Accrued Compensated Absences	1,053,386	1,006,587
Accrued Payroll Withholdings	54,151	186,746
Estimated Third-Party Payor Settlements	947,455	1,276,561
Other Current Liabilities	1,069,519	865,029
<b>Total Current Liabilities</b>	<b>9,914,532</b>	<b>11,460,163</b>
Derivative Instrument- Swap	547,590	186,504
Long-Term Debt, Less Current Maturities	12,369,504	13,225,140
Long-Term Capital Lease Obligations, Less Current Maturities	2,627,585	4,737,410
<b>Total Liabilities</b>	<b>25,459,211</b>	<b>29,609,217</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	30,459,020	26,265,032
Restricted for Debt Service	214,009	3,334,160
Unrestricted	37,717,827	37,286,710
<b>Total Net Assets</b>	<b>68,390,856</b>	<b>66,885,902</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 93,850,067</b>	<b>\$ 96,495,119</b>

The accompanying notes are an integral part of these consolidated financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Operating Revenues</b>		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$19,713,745 in 2012, and \$16,586,730 in 2011	\$ 67,176,978	\$ 69,449,357
Other Operating Revenue, Net of Expenses	2,749,124	1,066,306
<b>Total Operating Revenues</b>	<b>69,926,102</b>	<b>70,515,663</b>
<b>Operating Expenses</b>		
Salaries	29,226,410	28,044,878
Medical Supplies	11,791,578	11,486,620
Fringe Benefits	6,531,834	5,639,571
Depreciation and Amortization	5,438,880	5,342,541
Contracted Services	5,211,038	6,280,354
Professional Fees	3,070,070	1,375,234
Repairs and Maintenance	1,983,351	1,828,208
Other	1,893,818	1,660,300
Non-Medical Supplies	1,604,605	1,524,630
Insurance	1,148,562	1,134,917
Utilities	881,433	950,803
<b>Total Operating Expenses</b>	<b>68,781,579</b>	<b>65,268,056</b>
<b>Operating Income</b>	<b>1,144,523</b>	<b>5,247,607</b>
<b>Non-Operating Revenue (Expenses)</b>		
Investment Income	364,222	281,709
Interest Expense	(604,744)	(632,448)
Other Non-Operating Revenue	600,953	439,292
<b>Net Non-Operating Revenue</b>	<b>360,431</b>	<b>88,553</b>
<b>Change in Net Assets</b>	<b>1,504,954</b>	<b>5,336,160</b>
<b>Net Assets, Beginning of Year</b>	<b>66,885,902</b>	<b>61,549,742</b>
<b>Net Assets, End of Year</b>	<b>\$ 68,390,856</b>	<b>\$ 66,885,902</b>

The accompanying notes are an integral part of these consolidated financial statements.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Receipts from and on Behalf of Patients	\$ 69,843,198	\$ 66,040,479
Payments to Suppliers and Contractors	(27,020,720)	(28,613,748)
Payments to Employees	(35,712,663)	(33,295,775)
<b>Net Cash Provided by Operating Activities</b>	<b>7,109,815</b>	<b>4,130,956</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Other Non-Operating Revenues	600,953	439,292
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal Paid on Capital Leases	(2,703,570)	(2,580,474)
Principal Paid on Long-Term Debt	(2,831,111)	(1,615,694)
Interest Paid on Long-Term Debt	(604,744)	(632,448)
Proceeds from Long-Term Debt	-	5,250,000
Purchase of Capital Assets	(3,965,555)	(215,508)
<b>Net Cash (Used in) Provided by Capital and Related Financing Activities</b>	<b>(10,104,980)</b>	<b>205,876</b>
<b>Cash Flows from Investing Activities</b>		
Interest and Dividends on Investments	364,222	281,709
Purchase of Investments	(1,096,058)	(6,229,157)
Proceeds from Sale of Investments	4,010,161	3,321,566
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>3,278,325</b>	<b>(2,625,882)</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>884,113</b>	<b>2,150,242</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>13,454,881</b>	<b>11,304,639</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 14,338,994</b>	<b>\$ 13,454,881</b>

The accompanying notes are an integral part of these consolidated financial statements.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Consolidated Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Reconciliation of Operating Income to Net</b>		
<b>Cash Provided by Operating Activities</b>		
Operating Income	\$ 1,144,523	\$ 5,247,607
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	5,438,880	5,342,541
Loss on Disposal of Property and Equipment	-	98,531
Provision for Bad Debts	19,713,745	16,586,730
Changes in:		
Patient Accounts Receivable	(19,467,543)	(15,393,602)
Inventory and Other Current Assets	(58,031)	(1,140,810)
Other Assets	(685,348)	(798,307)
Accounts Payable and Other Current Payables	1,307,114	(532,096)
Accrued Expenses and Payroll Withholdings	45,581	388,674
Estimated Third-Party Payor Settlements	(329,106)	(5,668,312)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 7,109,815</b>	<b>\$ 4,130,956</b>
<b>Schedule of Non-Cash Investing, Capital and Financing Activities</b>		
Acquisition of Capital Assets Through Capital Leases	\$ -	\$ 2,956,353

The accompanying notes are an integral part of these consolidated financial statements.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies**

**Nature of Operations**

Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), is a not-for-profit healthcare organization located in Zachary, Louisiana. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (the City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, provides inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is exempt from Federal and State income taxes.

Lane RMC Service Corporation (the Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-Profit Corporation Law. Although the Corporation is legally separate from the Hospital, the Corporation is reported as if it were a part of the Hospital because of the presence of a shared governing body with the Hospital. In accordance with Government Accounting Standards Board (GASB) Statement No. 14, the operations of the Corporation, for the years ended June 30, 2012 and 2011, have been included in the Hospital's consolidated financial statements.

The Hospital holds an ownership interest in a joint venture with FASTLane, Inc. FASTLane, Inc. is an after hours walk-in clinic servicing the Zachary area. The facility is 3,500 square feet and features 8 exam rooms, on-site x-ray, lab and drug screening services. FASTLane is staffed by licensed physicians. As of June 30, 2012 and 2011, the Hospital owned 78% and 66% of the joint venture, respectively.

**Principles of Consolidation**

The accompanying basic consolidated financial statements include the accounts of entities referred to above. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Financial Reporting Entity**

Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Financial Reporting Entity (Continued)**

Since the City-Parish appoints all of the members of the Hospital's Board of Commissioners and has the ability to impose its will on that organization, the Hospital is considered to be a component unit of the City-Parish of Baton Rouge, the financial reporting entity. The accompanying consolidated financial statements, however, present information only on the funds maintained by the Hospital and do not present information on the City-Parish, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

The significant accounting policies used by the Hospital in preparing and presenting its consolidated financial statements are summarized as follows:

**Basis of Accounting**

The Hospital utilizes the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis of accounting. Under the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types, substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514, to the guidance set forth in the *Louisiana Governmental Accounting Guide*, and to the industry audit guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Investments and Investment Income**

Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

**Investments Held by Trustees**

The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

**Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

**Inventories**

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

**Prepaid Expenses and Deferred Charges**

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

**Capital Assets**

The Hospital's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest costs allocated to buildings and construction in progress was \$-0-, for the years ended June 30, 2012 and 2011.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Capital Assets (Continued)**

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

**Compensated Absences**

Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

**Net Assets**

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets.

**Operating Revenues and Expenses**

The Hospital's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. See Note 10.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Charity Care**

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are recorded to gross patient service revenue and written off through contractual allowances. As such, these charges are not reported as net patient service revenue on the consolidated statement of revenues, expenses, and changes in net assets. The Hospital implemented procedures that allow the Hospital to track such charges during the year ended June 30, 2011. Charity care charges forgone for the year ended June 30, 2012 and 2011 were \$1,930,938 and \$1,493,317, respectively.

**Derivatives and Financial Instruments**

The Hospital uses an interest rate swap basis agreement to manage interest costs and the risk associated with changing interest rates. While the Hospital's primary objective for the use of this instrument is to manage cash flow requirements, the change in fair value of a hedging derivative instrument will be reported in the balance sheet as deferred outflows (accumulated decrease in fair value) in accordance with the GASB No. 53, *Accounting and Financial Reporting of Derivative Instruments*.

The fair value of the interest rate basis swap agreement represent the estimated amount the Hospital would pay to terminate this agreement at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the Hospital. See Notes 4 and 5.

**Note 2. Deposits and Investments**

The Hospital has various deposits and investments. The amounts reflected on the accompanying consolidated balance sheets are as follows:

	<b>2012</b>	<b>2011</b>
Cash and Cash Equivalents	<b>\$ 14,338,994</b>	\$ 13,454,881
Short-Term Investments	<b>17,036,449</b>	16,830,401
Investments Held by Trustee for Debt Service	<b>214,009</b>	3,334,160
<b>Total</b>	<b>\$ 31,589,452</b>	\$ 33,619,442

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 2. Deposits and Investments (Continued)**

The Hospital's balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name.

Under Louisiana Revised Statutes 39:1271 and 33:2955, the Hospital may deposit funds in demand deposit accounts, interest-bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in direct obligations of the U.S. Government, federally insured instruments, guaranteed investment contracts issued by certain financial institutions, and mutual or trust funds registered with the Securities and Exchange Commission.

Investments held by trustee for debt service as of June 30, 2012 and 2011, consisted of money market funds.

At June 30, 2012 and 2011, the Hospital's short-term investments consisted of equity interests in a commingled private trust established under the Louisiana Hospital Investment Pool (LHIP) program. The Hospital reports the value of its pro rata share of this trust at estimated fair market value as determined by the fair value of all underlying securities, held by the trusts. At June 30, 2012 and 2011, the trust was primarily invested in money market funds and U.S. Government agency obligations.

LHIP is a money market-like investment pool. The following disclosures are relevant for money market-like investment pools:

Credit risk: LHIP is unrated by the credit agencies, however the underlying U.S. Government agency securities, which comprise the substantial portion of the LHIP's assets, are rated Aaa by Moody's.

Custodial credit risk: LHIP participants' investments in the pool are evidenced by units of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement of the GASB 40 Statement.

Interest rate risk: Money market-like investment pools are excluded from this disclosure requirement, per paragraph 15 of the GASB 40 statement.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

**Note 3. Capital Assets**

Capital asset additions, retirement, and balances for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Retirements and Transfers	Balance June 30, 2012
<b>Capital Assets</b>				
Land and Land Improvements	\$ 4,356,604	\$ 12,691	\$ -	\$ 4,369,295
Construction in Progress	671,901	549,794	(671,901)	549,794
Buildings	37,346,119	890,525	30,760	38,267,404
Fixed Equipment	5,620,759	295,667	-	5,916,426
Movable and Other Equipment	32,179,424	1,860,625	(900,031)	33,140,018
Physicians' Office Building and Equipment	16,010,906	356,253	641,141	17,008,300
<b>Total Capital Assets</b>	<b>96,185,713</b>	<b>3,965,555</b>	<b>(900,031)</b>	<b>99,251,237</b>
<b>Less: Accumulated Depreciation for:</b>				
Land Improvements	259,478	26,880	-	286,358
Buildings	16,113,221	1,252,895	-	17,366,116
Fixed Equipment	4,288,599	388,969	-	4,677,568
Movable and Other Equipment	23,519,410	3,278,312	(900,031)	25,897,691
Physicians' Office Building and Equipment	2,242,742	359,192	-	2,601,934
<b>Total Accumulated Depreciation</b>	<b>46,423,450</b>	<b>5,306,248</b>	<b>(900,031)</b>	<b>50,829,667</b>
<b>Total Capital Assets, Net</b>	<b>\$49,762,263</b>	<b>\$ (1,340,693)</b>	<b>\$ -</b>	<b>\$48,421,570</b>

Capital asset additions, retirement, and balances for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Additions	Retirements and Transfers	Balance June 30, 2011
<b>Capital Assets</b>				
Land and Land Improvements	\$ 4,309,762	\$ 46,842	\$ -	\$ 4,356,604
Construction in Progress	469,461	771,603	(569,163)	671,901
Buildings	36,538,043	357,260	450,816	37,346,119
Fixed Equipment	5,499,030	118,799	2,930	5,620,759
Movable and Other Equipment	30,526,465	1,836,794	(183,835)	32,179,424
Physicians' Office Building and Equipment	15,939,549	40,562	30,795	16,010,906
<b>Total Capital Assets</b>	<b>93,282,310</b>	<b>3,171,860</b>	<b>(268,457)</b>	<b>96,185,713</b>
<b>Less: Accumulated Depreciation for:</b>				
Land Improvements	236,123	23,355	-	259,478
Buildings	14,907,423	1,205,798	-	16,113,221
Fixed Equipment	3,940,873	347,726	-	4,288,599
Movable and Other Equipment	20,619,284	3,067,736	(167,610)	23,519,410
Physicians' Office Building and Equipment	1,914,967	330,091	(2,316)	2,242,742
<b>Total Accumulated Depreciation</b>	<b>41,618,670</b>	<b>4,974,706</b>	<b>(169,926)</b>	<b>46,423,450</b>
<b>Total Capital Assets, Net</b>	<b>\$51,663,640</b>	<b>\$ (1,802,846)</b>	<b>\$ (98,531)</b>	<b>\$49,762,263</b>



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**Notes to Consolidated Financial Statements**

**Note 4. Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2012 and 2011, follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
Bonds Payable					
Series 2007	\$ 10,937,501	\$ -	\$ 694,444	\$ 10,243,057	\$ 694,444
Series 2010	5,118,750	-	2,136,667	2,982,083	161,192
<b>Total Long-Term Debt</b>	<b>\$ 16,056,251</b>	<b>\$ -</b>	<b>\$ 2,831,111</b>	<b>\$ 13,225,140</b>	<b>\$ 855,636</b>

  

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Bonds Payable					
Series 1996	\$ 790,000	\$ -	\$ 790,000	\$ -	\$ -
Series 2007	11,631,945	-	694,444	10,937,501	694,444
Series 2010	-	5,250,000	131,250	5,118,750	2,136,667
<b>Total Long-Term Debt</b>	<b>\$ 12,421,945</b>	<b>\$ 5,250,000</b>	<b>\$ 1,615,694</b>	<b>\$ 16,056,251</b>	<b>\$ 2,831,111</b>

The terms and due dates of the Hospital's long-term debt at June 30, 2012 and 2011, follows:

- Hospital Revenue and Refunding Bonds (Series 1996), variable interest rate equal to 65% of monthly LIBOR, plus 1.6%, due in monthly installments through February 1, 2011, secured by the operating revenues of the Hospital and additional property as defined in the trust indenture.
- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with the Seventh Supplemental and Amendatory Trust Indenture, Article I, Section 1.2, due in quarterly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2012, the effective rate was 1.58%. See additional information regarding the Hospital's interest rate swap agreement at Note 5.
- Hospital Revenue and Refunding Bonds (Series 2010), variable interest rates on the Bond established weekly in accordance with the Sixth Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, due in quarterly installments through October 1, 2030, secured by operating revenues and property of the Hospital as defined in the trust indenture. As of June 30, 2012, the effective rate was 1.68%.

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**Note 4. Long-Term Debt (Continued)**

With the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the years ended June 30, 2012 and 2011.

Scheduled principal and interest repayments on long-term debt are as follows for the year ended June 30<sup>th</sup>:

	<b>Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 855,636	\$ 207,017
2014	855,636	193,322
2015	855,636	179,628
2016	855,636	165,933
2017	855,636	152,238
2018-2022	4,278,180	555,771
2023-2027	4,104,577	214,074
Thereafter	564,203	17,773
<b>Total</b>	<b>\$ 13,225,140</b>	<b>\$ 1,685,756</b>

**Note 5. Derivative Instruments**

On November 25, 2009, the Hospital entered into a seventeen year, \$5,989,584 notional amount basis swap agreement, effective December 1, 2009. The agreement converts the variable interest rate, established weekly in accordance with the Third Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, to a fixed rate of 3.82%.

The Hospital's interest expense included a charge of approximately \$163,000 and \$146,000, for the years ended June 30, 2012 and 2011, respectively, related to the swap agreement. At June 30, 2012 and 2011, this arrangement had a carrying value which approximates its fair value liability of approximately \$548,000 and \$187,000, respectively, which is recorded as derivative instrument-swap on the consolidated balance sheets.

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**Notes to Consolidated Financial Statements**

**Note 5. Derivative Instruments (Continued)**

At June 30, 2012 and 2011, the Hospital has the following derivative instruments outstanding:

Type	Objective	Notional Amount June 30, 2012	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	\$ 5,121,528	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	\$ (547,590)

  

Type	Objective	Notional Amount June 30, 2011	Effective Date	Maturity Date	Terms	Fair Value
Pay fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	\$ 5,469,000	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	\$ (186,504)

As of June 30, 2012, debt service requirements of the Hospital's debt and net receipts/payment on associated hedging derivative instruments are presented below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative instrument will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivatives will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

	Principal	Interest	Hedging Derivative, Net	Total
2013	\$ 855,636	\$ 207,017	\$ 109,861	\$ 1,172,514
2014	855,636	193,322	102,083	1,151,041
2015	855,636	179,628	94,306	1,129,570
2016	855,636	165,933	86,528	1,108,097
2017	855,636	152,238	78,750	1,086,624
2018-2022	4,278,180	555,771	237,639	5,071,590
2023-2027	4,104,577	214,074	122,986	4,441,637
Thereafter	564,203	17,773	-	581,976
<b>Total</b>	<b>\$ 13,225,140</b>	<b>\$ 1,685,756</b>	<b>\$ 832,153</b>	<b>\$ 15,743,049</b>

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**Notes to Consolidated Financial Statements**

**Note 5. Derivative Instruments (Continued)**

*Credit Risk:* The Hospital should enter into interest rate transactions only with counterparties qualified under the Hospital's Interest Rate Derivative Policy. To qualify as a counterparty under the policy, at the time of entry into a transaction, the selected swap providers should be rated at least AA-/Aa3/AA by at least one of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's and Fitch Ratings, respectively) and should have minimum capitalization of \$50 million.

At June 30, 2012, the derivative instrument is held with one counterparty which has a credit rating of A+ as issued by Fitch Ratings, A+ as issued by Standard & Poor's, and A2 as issued by Moody's Investor Service.

*Basis Risk:* The Hospital is exposed to basis risk on its pay-fixed interest rate swap that are hedging the bonds, as the variable-rate payments received by the Hospital on these derivative instruments are based on a rate other than the interest rate the Hospital pays on the bonds.

*Termination Risk:* The Hospital or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a derivative instrument is in a liability position, the Hospital would be liable to the counterparty for a payment equal to the liability.

**Note 6. Capital Leases**

The Hospital is the lessee of equipment under capital leases expiring in various years through 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2012 and 2011.

Depreciation on assets under capital leases charged to expense in 2012 and 2011, was \$2,254,797 and \$2,384,418, respectively.

Following is a summary of property held under capital leases:

	2012	2011
Equipment	\$ 9,985,153	\$ 12,975,722
Less: Accumulated Depreciation	(5,331,430)	(5,720,365)
<b>Total</b>	<b>\$ 4,653,723</b>	<b>\$ 7,255,357</b>

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**Notes to Consolidated Financial Statements**

**Note 6. Capital Leases (Continued)**

A schedule of changes in the Hospital's capital leases for 2012 and 2011 follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
<b>Capital Lease</b>					
Leased Equipment Rider #3	\$ 113,159	\$ -	\$ 113,159	\$ -	\$ -
Leased Equipment Rider #9	367,034	-	367,034	-	-
Leased Equipment Rider #10	1,473,069	-	316,333	1,156,736	330,029
Leased Equipment Rider #11	980,550	-	581,333	399,217	399,217
Leased Equipment Rider #12	1,721,789	-	624,101	1,097,688	649,751
Leased Equipment Rider #13	2,785,379	-	701,610	2,083,769	730,828
<b>Total Capital Lease Obligation</b>	<b>\$ 7,440,980</b>	<b>\$ -</b>	<b>\$ 2,703,570</b>	<b>\$ 4,737,410</b>	<b>\$ 2,109,825</b>

  

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
<b>Capital Lease</b>					
Leased Equipment Rider #3	\$ 257,664	\$ -	\$ 144,505	\$ 113,159	\$ 113,159
Leased Equipment Rider #6	28,346	-	28,346	-	-
Leased Equipment Rider #7	48,690	-	48,690	-	-
Leased Equipment Rider #8	189,302	-	189,302	-	-
Leased Equipment Rider #9	902,031	-	534,997	367,034	367,034
Leased Equipment Rider #10	1,776,275	-	303,206	1,473,069	316,333
Leased Equipment Rider #11	1,541,541	-	560,991	980,550	581,333
Leased Equipment Rider #12	2,321,252	-	599,463	1,721,789	624,101
Leased Equipment Rider #13	-	2,956,353	170,974	2,785,379	701,610
<b>Total Capital Lease Obligation</b>	<b>\$ 7,065,101</b>	<b>\$ 2,956,353</b>	<b>\$ 2,580,474</b>	<b>\$ 7,440,980</b>	<b>\$ 2,703,570</b>

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**Notes to Consolidated Financial Statements**

**Note 6. Capital Leases (Continued)**

Minimum future lease payments under capital leases as of June 30, 2012, for each of the next five years, and in the aggregate are:

	<b>Capital Lease</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 2,109,825	\$ 152,032
2014	1,553,516	76,395
2015	950,903	23,666
2016	123,166	1,092
<b>Total</b>	<b>\$ 4,737,410</b>	<b>\$ 253,185</b>

**Note 7. Insurance Programs**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee's injuries and illnesses; natural disasters; and medical malpractice.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs, including future medical costs. The Fund provides coverage on an occurrence basis for claims over \$100,000, and up to \$500,000. In addition, the Hospital is a participant in the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust). As a participant in the Trust, the Hospital is fully insured against professional liability and general liability claims, with specific loss and aggregate loss limits of \$2,500,000, for professional liability claims and \$4,500,000, for general liability claims, subject to a \$25,000 per claim deductible.

The Hospital participates in the Louisiana Hospital Association Workers' Compensation Inter-local Risk Management Agency. As a participant, the Hospital is insured for workers' compensation claims, subject to a \$50,000 per claim deductible.

The Hospital is also self-insured for medical and dental claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying consolidated financial statements as other current liabilities on the consolidated balance sheets.

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**Notes to Consolidated Financial Statements**

**Note 7. Insurance Programs (Continued)**

The claims liabilities at June 30, 2012 and 2011 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	<b>2012</b>	<b>2011</b>
Claims Liability, Beginning of Year	\$ <b>839,900</b>	\$ 831,962
Current Year Claims and Changes in Estimates	<b>4,067,894</b>	3,258,867
Current Year Claims Payments	<u><b>(3,918,489)</b></u>	<u>(3,250,929)</u>
<b>Total</b>	<u><b>\$ 989,305</b></u>	<u>\$ 839,900</u>

**Note 8. Pension Plan**

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

**Plan Description**

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 with ten years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.5% of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after five years of creditable service, but before attaining retirement age, are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.



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**Notes to Consolidated Financial Statements**

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**Note 8. Pension Plan (Continued)**

**Funding Policy**

Participants are required to contribute three percent (3%) of their monthly earnings. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

**Funding Status**

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in January 2012, for the Plan year ending June 30, 2012, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2012, 2011 and 2010, were as follows:

	<b>2012</b>	2011	2010
Discount Rates	<b>7.00%</b>	7.00%	7.00%
Rates of Increase in Compensation Levels	<b>4.00%</b>	4.00%	4.00%
Expected Long-Term Rate of Return on Assets	<b>7.00%</b>	7.00%	7.00%

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**Notes to Consolidated Financial Statements**

**Note 8. Pension Plan (Continued)**

**Funding Status (Continued)**

Based on the latest actuarial valuation in January, 2012, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2011, 2010 and 2009:

	July 1, 2011	July 1, 2010	July 1, 2009
Actuarial Value of Plan Assets	\$ 20,034,917	\$ 18,574,005	\$ 17,744,855
Actuarial Accrued Liability	\$ 23,169,251	\$ 21,547,438	\$ 18,608,964
Unfunded Liability	\$ (3,134,334)	\$ (2,973,433)	\$ (864,109)
Funded Ratio	86.5%	86.2%	95.4%
Annual Covered Payroll	\$ 6,969,894	\$ 6,980,338	\$ 7,190,566
Unfunded Deficiencies as a Percentage of Annual Covered Payroll	(45.0%)	(42.6%)	(12.0%)

The Hospital had an annual required contribution of \$761,808, \$750,841, and \$430,330, for the years ended June 30, 2012, 2011, and 2010, respectively.

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

**Annual Pension Cost and Net Pension Obligation**

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual Required Contribution	\$ 761,808
Interest on Net Pension Obligation	(8,871)
Adjustment to Annual Required Contribution	13,951
Annual Pension Cost	766,888
Contributions Made	761,808
Increase in Net Pension Obligation	5,080
Net Pension (Overpayment) Obligation, Beginning of Year	(126,914)
Net Pension (Overpayment) Obligation, End of Year	\$ (121,834)

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**Notes to Consolidated Financial Statements**

**Note 9. Business and Credit Concentrations**

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2012 and 2011, is as follows:

	2012	2011
Medicare	32%	35%
Medicare Risk	9%	16%
Medicaid	8%	7%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	42%	34%
Self-Pay Patients	9%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Note 10. Net Patient Service Revenue and Accounts Receivable**

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

**Medicare**

The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

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**Notes to Consolidated Financial Statements**

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**Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)**

**Medicare (Continued)**

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor limited the potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital, and audits thereof, by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2007.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof, by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through June 30, 2007.

Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 6%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2012, and 30% and 4%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2011. The laws and regulations under which Medicare and Medicaid programs operated are complex, and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient revenue increased by approximately \$919,640 and \$4,094,398, for the years ended June 30, 2012 and 2011, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

**Other**

The Hospital has also entered into agreements with certain other commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined daily rates.

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**Notes to Consolidated Financial Statements**

**Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)**

**Other (Continued)**

The mix of revenues by significant payor category (based on gross charges) is as follows:

	2012	2011
Medicare	34%	34%
Medicare Risk	16%	14%
Medicaid	11%	15%
Medicaid Risk	3%	
Commercial Insurance Companies, Health Maintenance Organizations, and Other	30%	31%
Self-Pay Patients	6%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Note 11. Other Operating Revenue**

Other operating revenue recognized during the years ended June 30, 2012 and 2011, consists of the following:

	2012	2011
Upper Payment Limit Distributions	\$ 2,206,041	\$ -
Pharmacy 340B Program Revenues	398,898	1,027,910
Cafeteria Revenues	360,839	398,618
Other	249,485	157,961
<b>Total Other Operating Revenues</b>	<b>3,215,263</b>	<b>1,584,489</b>
<b>Less: Related Expenses</b>	<b>(466,139)</b>	<b>(518,183)</b>
<b>Other Operating Revenue, Net</b>	<b>\$ 2,749,124</b>	<b>\$ 1,066,306</b>

**Note 12. Commitments and Contingencies**

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

**Recovery Audit Contractors**

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010.

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**Note 12. Commitments and Contingencies (Continued)**

**Recovery Audit Contractors (Continued)**

The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Management's experience had determined that RAC and MIC assessments have been insignificant to date.

**Derivative Instruments**

The Hospital's derivative instrument includes provisions that the Hospital will post collateral to the counterparty in the event the Hospital does not maintain a minimum Debt Service Coverage Ratio of 1.35 or Days Cash on Hand falls below one hundred-ten days. As of June 30, 2012, the Hospital has achieved the aforementioned requirements.

**Cooperative Endeavor and Service Agreements**

The Hospital entered into a one year agreement with PHC-Louisiana, Inc. (PHC) effective April 1, 2011. The agreement states that certain physician and nurse anesthetist services will be funded by PHC in exchange for the matching of funds provided by the Hospital to the Department of Health and Hospitals (DHH). This agreement was renewed for one year effective April 1, 2012.

The Hospital also entered into a one year agreement with Life Point effective July 1, 2011. The agreement states that certain psychiatrist and physician services will be funded by PHC in exchange for the matching of funds provided by the Hospital to DHH. This agreement was renewed for one year effective July 1, 2012.

The Hospital also entered into an agreement with Cypress Audit (Cypress) effective May 21, 2012. The agreement states that the Hospital will fund certain physician, physician assistants, and nurse anesthetist services to support the roles they perform in the delivery of healthcare in the Medicare populations in exchange for the matching of funds provided to DHH. As of June 30, 2012, the net effect of intergovernmental transfer and the supplemental Upper Payment Limit (UPL) payment due to the Hospital was \$153,282, which is recognized as other operating revenues on the consolidated statements of revenues, expenses and changes of net assets.



**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER**

**Notes to Consolidated Financial Statements**

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**Note 12. Commitments and Contingencies (Continued)**

**Cooperative Endeavor and Service Agreements (Continued)**

The Hospital also entered into a six month agreement with PHC effective October 1, 2011. The agreement states that certain cardiology services will be funded by Life Point in exchange for the matching of funds provided by the Hospital to DHH. This agreement was renewed for six months effective April 1, 2012.

The Hospital also entered into a one year agreement, effective December 7, 2011, with other health care providers, to establish a grant program through the contribution of a portion of UPL payment(s) that result from Medicaid State Plan Amendments, which provides for reimbursements to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits, to the hospital service districts for the purpose of ensuring adequate healthcare services are available for underserved non-rural populations. This agreement will be automatically renewed for successive one year terms unless terminated. As of June 30, 2012 and 2011, the Hospital has received UPL payments under this contract of approximately \$2,013,000 and \$-0-, respectively, which are recognized in other operating revenues on the consolidated statements of revenues, expenses and changes in net assets.

The Hospital also entered into an agreement, effective April 1, 2012, with the Louisiana Women's Healthcare Associates, L.L.C. (the Contractor). The Hospital is engaged in the delivery of physician services through the use of its facilities, personnel and medical staff; and in support of the Hospital's mission, the Hospital owns, operates, and manages certain medical practices located in Zachary, Louisiana. Under the agreement, the Contractor shall be responsible for providing physicians to perform professional medical services normally provided by physicians in the specialty. The Contractor may also provide professional services through such Allied Health Professionals (AHP), such as physician assistant or advanced registered nurse. In addition, the Contractor may provide administrative effort necessary to operate the clinic. As compensation for the services provided by the Contractor under the agreement, the Contractor shall receive 100% after allocation of clinical expenses, of the collections attributable to services performed by any physician or by any AHP for whom the Contractor is entitled to bill, as well as 60% of the collections attributable to supplemental UPL payments from Medicaid. As of June 30 2012, other operating revenues recognized under this agreement on the consolidated statements of revenues, expenses and changes in net assets were \$-0-.

**Note 13. Reclassifications**

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. The reclassifications have no effect on previously reported net income.





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## Independent Auditor's Report on Supplementary Information

To the Board of Commissioners  
Hospital Service District No. 1 of  
East Baton Rouge Parish, Louisiana,  
d/b/a Lane Regional Medical Center  
Zachary, Louisiana

We have audited the consolidated financial statements of the Hospital Service District No.1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2012, and have issued our report there on dated October 1, 2012, which contained an unqualified opinion on those basic consolidated financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of board and commissioners salaries is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A Professional Accounting Corporation

October 1, 2012

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

**HOSPITAL SERVICE DISTRICT NO. 1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Schedule of Board of Commissioners and Salaries  
For the Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Dell Guerra	\$ 250	\$ 250
Jimmy Jackson	250	250
Keith Elbourne, M.D.	250	75
Frank Ragsdale	250	25
Harold Rideau	250	25
Patricia D. Gauthier	225	225
Mark Thompson	225	250
Joan Lansing	225	200
Gaynell Young	200	-
Judy Myles	25	225
Robert Williams, Jr.	-	200
James Carroll	-	200
Jeffrey Gruner, M.D.	-	100
<b>Total</b>	<b>\$ 2,150</b>	<b>\$ 2,025</b>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
Hospital Service District No. 1 of  
East Baton Rouge Parish, Louisiana  
d/b/a Lane Regional Medical Center  
Zachary, Louisiana

We have audited the basic consolidated financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a related organization of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2012, which collectively comprise the Hospital's basic consolidated financial statements and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and uses of the Board of Commissioners, management and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script, reading "LaPorte".

A Professional Accounting Corporation

October 1, 2012

**HOSPITAL SERVICE DISTRICT NO.1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Current Year Audit Findings and Responses  
For the Year Ended June 30, 2012**

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**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings noted.

**HOSPITAL SERVICE DISTRICT NO.1  
OF EAST BATON ROUGE PARISH, LOUISIANA  
d/b/a LANE REGIONAL MEDICAL CENTER  
Prior Year Audit Findings  
For the Year Ended June 30, 2012**

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**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings noted.